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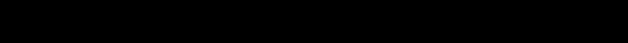
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ECONOMIC INTELLIGENCE WEEKLY

26 February 1974


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Overview

The OECD Trade Balance went into the red by \$21 billion last year because of a \$65 billion increase in oil bills. The Big Three -- West Germany, Japan, and the United States -- were the least affected. Their combined surplus on non-oil trade rose substantially, more than offsetting the \$37 billion increase in oil imports. The jump in their non-oil surplus came principally at the expense of other OECD countries and non-oil LDCs. Australia, Canada, Spain, and New Zealand fared the worst of the 12 OECD members whose non-oil trade balances deteriorated.

Several smaller countries, including Spain, Greece, and Turkey, ran larger non-oil than oil trade deficits. Spain's \$7 billion overall trade deficit was by far the largest among smaller OECD countries. Australia and Denmark already have moved to impose import restrictions.

This pattern is likely to be repeated in 1975 because demand in the Big Three is expected to remain weak. 

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OPEC Countries Plan To Invest an increasing share of their funds in equities. Countries with good long-term economic prospects or traditionally strong currencies, such as the United States and West Germany, will be prime targets. Faced with the possibility of massive OPEC purchases, Western countries are re-evaluating their regulations on foreign investments with a view to channeling petrodollars into nonsensitive industries.

A Record Soviet Winter Grain Crop is in prospect if normal temperatures hold through March. During late January and early February, snow fell over much of the western and southern halves of the winter grain area, averting the danger that several days of extremely cold temperatures would cause substantial winterkill. Winter crops provide about one-third of Soviet annual grain harvests. (Confidential No Foreign Dissem)

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Articles

OECD COUNTRIES: SHIFTING TRADE BALANCES

A \$65 billion increase in the oil deficit last year led to an estimated \$31 billion worsening in the overall trade balance of the OECD countries – from an \$10 billion surplus to a \$21 billion deficit. Major shifts in balances in non-oil trade resulted in an uneven distribution of the payments burden among individual countries.

Twelve Gainers in Non-Oil Trade

Twelve of the OECD countries were able to improve their balances on non-oil trade, thus mitigating the impact of higher oil prices. West Germany, Japan, and the United States were most successful. The \$37 billion jump in their combined oil trade deficit was more than offset by a \$39 billion improvement in their non-oil trade. The other nine countries of the 12 gainers together racked up only a \$4 billion improvement in their non-oil balance.

The largest shift in non-oil balances came in trade between the Big Three and other OECD countries. West Germany, Japan, and the United States together increased their surplus in intra-OECD trade from \$15 billion in 1973 to \$28 billion in 1974, thus accounting for \$13 billion of the \$33 billion deterioration in the trade balance of other OECD countries. The Big Three and the other 21 OECD countries each increased their surpluses with non-oil LDCs by \$10 billion and \$6 billion, respectively. Their small surpluses in trade with the Communist area remained practically unchanged.

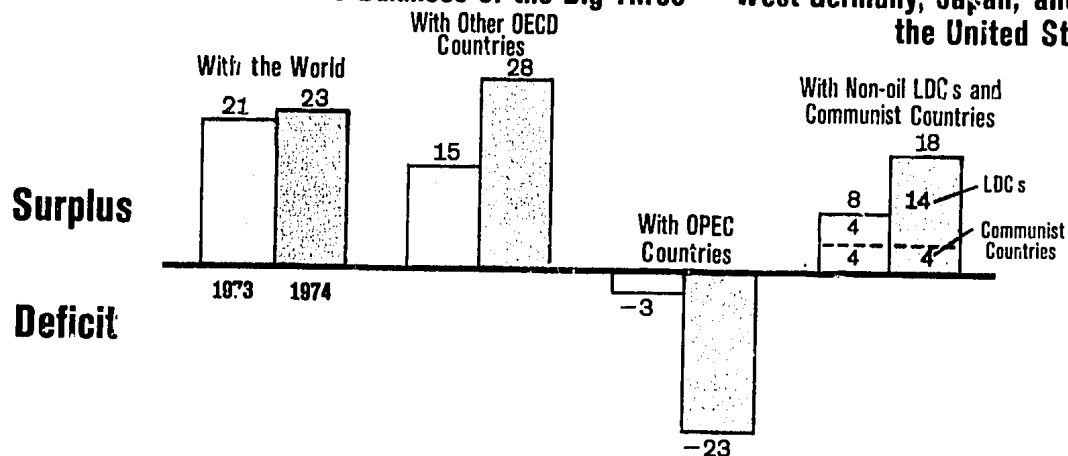
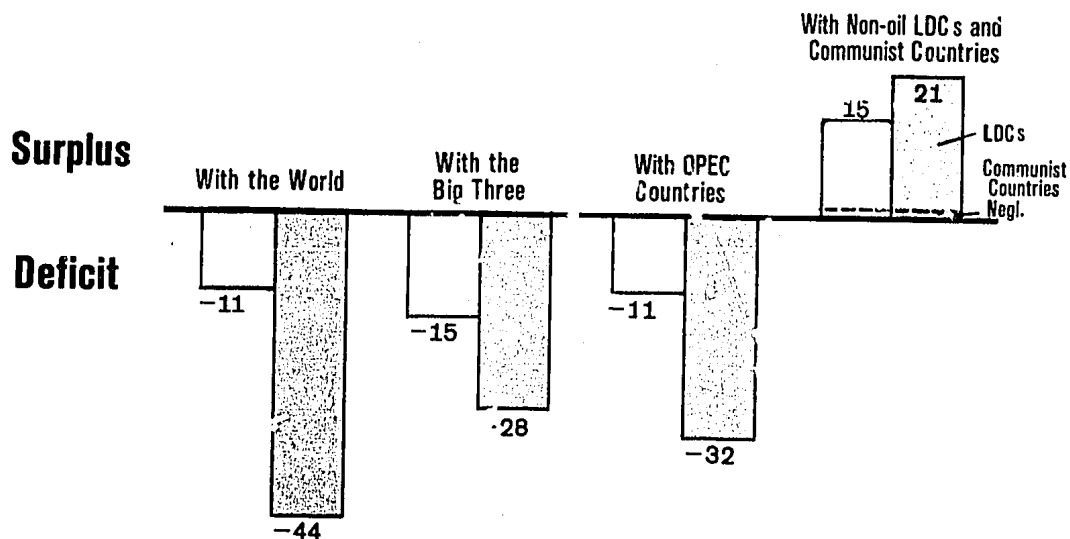
Twelve Losers in Non-Oil Trade

The twelve OECD losers in competition for markets saw their non-oil trade balances worsen by a total of \$9 billion, despite an increase in the surplus with non-OECD countries. Larger deficits in trade with the Big Three were the main factor in this deterioration. Australia, Canada, Spain, and the United Kingdom registered the heaviest losses.

Payments Problems of Smaller Countries

Of the smaller OECD countries, Austria, Greece, Iceland, Ireland, Norway, Portugal, Spain, and Turkey ran larger deficits on non-oil trade than on oil trade.

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OECD Countries: Shift in Trade Balances¹**Billion US \$****Combined Trade Balances of the Big Three--West Germany, Japan, and the United States****Combined Trade Balances of Other 21 OECD Countries**¹. Data for 1974 are partially estimated.

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Gaining countries -- Improvement in non-oil trade, \$42.7 billion
Of which:

West Germany - \$14.5
 Japan - \$12.2
 United States - \$12.0

Losing Countries -- Deterioration in non-oil trade, \$8.7 billion
Of which:

Australia - \$2.4
 Canada - \$1.5
 Spain - \$1.3
 New Zealand - \$1.1
 Turkey - \$0.6

Spain's overall deficit doubled, to \$7.1 billion. Despite a continuing large surplus on services, Madrid was forced to borrow heavily from abroad and to draw down its reserves from \$7 billion to \$6 billion. Greece and Turkey, which incurred trade deficits last year of \$2.6 billion and \$1.7 billion, have relatively small reserves to fall back on. All three countries will find it more difficult to finance large trade deficits this year because of an expected decline in workers' remittances and continued softness in the tourist business.

Some of the smaller countries already have moved to curb imports.

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Last summer, Denmark sharply hiked taxes on luxury consumer goods, most of which are imported. Its overall trade deficit nevertheless rose to \$1.5 billion, posing serious financing difficulties.

Trade Balances of OECD Countries¹

	Billion US \$ f.o.b./f.c.b.					
	Total Trade		Oil Trade		Non-Oil Trade	
	1973	1974	1973	1974	1973	1974
Countries Recording a Marked Improvement in Non-Oil Balances						
West Germany						
Exports	67.7	88.6	0.7	1.2	67.0	87.4
Imports	51.8	64.8	4.3	11.4	47.5	53.4
Balance	15.9	23.8	-3.6	-10.2	19.5	34.0
Japan						
Exports	36.1	54.9	Negl.	0.1	36.1	54.8
Imports	32.6	53.6	5.5	20.0	27.1	33.6
Balance	3.5	1.3	-5.5	-19.9	9.0	21.2

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Trade Balances of OECD Countries¹
(Continued)

Billion US \$ f.o.b./f.o.b.

	<u>Total Trade</u>		<u>Oil Trade</u>		<u>Non-Oil Trade</u>	
	1973	1974	1973	1974	1973	1974
United States						
Exports	71.3	98.5	0.5	0.8	70.8	97.7
Imports	69.5	101.0	7.6	24.2	61.9	76.8
Balance	1.8	-2.5	-7.1	-23.4	8.9	20.9
Countries Recording Some Improvement in Non-Oil Balances						
Austria						
Exports	5.2	7.0	Negl.	Negl.	5.2	7.0
Imports	6.8	8.7	0.3	0.8	6.5	7.9
Balance	-1.6	-1.7	-0.3	-0.8	-1.3	-0.9
Denmark						
Exports	6.1	7.9	0.1	0.3	6.0	7.6
Imports	7.2	9.4	0.7	1.7	6.5	7.7
Balance	-1.1	-1.5	-0.6	-1.4	-0.5	-0.1
Finland						
Exports	3.8	5.7	Negl.	Negl.	3.8	5.7
Imports	4.0	6.7	0.4	1.3	3.6	5.4
Balance	-0.2	-1.0	-0.4	-1.3	0.2	0.3
France						
Exports	36.7	46.6	0.6	1.2	36.1	45.4
Imports	35.3	50.0	3.5	9.6	31.8	40.4
Balance	1.4	-3.4	-2.9	-8.4	4.3	5.0
Greece						
Exports	1.2	1.7	Negl.	0.1	1.2	1.6
Imports	3.6	4.3	0.3	0.8	3.3	3.5
Balance	-2.4	-2.6	-0.3	-0.7	-2.1	-1.9
Italy						
Exports	22.2	30.1	1.3	2.5	20.9	27.6
Imports	24.8	37.8	3.3	9.2	21.5	28.6
Balance	-2.7	-7.7	-2.0	-6.7	-0.6	-1.0
Netherlands						
Exports	20.4	28.3	2.1	3.7	18.3	24.6
Imports	19.1	27.0	2.8	5.4	16.3	21.6
Balance	-1.3	1.3	-0.7	-1.7	2.0	3.0
Sweden						
Exports	12.1	15.8	0.1	0.1	12.0	15.7
Imports	9.7	14.4	1.0	2.6	8.8	11.8
Balance	2.3	1.4	-0.9	-2.5	3.2	3.9
Switzerland						
Exports	9.4	11.9	Negl.	Negl.	9.4	11.8
Imports	11.2	13.9	0.8	1.3	10.4	12.6
Balance	-1.8	-2.1	-0.8	-1.3	-1.0	-0.8

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Trade Balances of OECD Countries¹
(Continued)

Billion US \$ f.o.b./f.o.b.

	Total Trade		Oil Trade		Non-Oil Trade	
	1973	1974	1973	1974	1973	1974
Countries Recording a Deterioration in Non-Oil Balances						
Australia						
Exports	10.0	11.0	0.1	0.2	9.9	10.8
Imports	7.2	11.1	0.3	0.9	6.9	10.2
Balance	2.8	-0.1	-0.2	-0.7	3.0	0.6
Belgium/Luxembourg						
Exports	22.3	27.1	0.6	0.6	21.7	26.5
Imports	21.9	28.3	1.3	2.5	20.6	25.8
Balance	0.3	-1.2	-0.7	-1.9	1.1	0.7
Canada						
Exports	25.5	33.1	1.8	4.1	23.7	29.0
Imports	23.4	32.1	1.1	3.0	22.3	29.1
Balance	2.1	1.0	0.7	1.1	1.4	-0.1
Iceland						
Exports	0.3	0.3	Negl.	Negl.	0.3	0.3
Imports	0.3	0.4	Negl.	Negl.	0.3	0.4
Balance	Negl.	-0.1	Negl.	Negl.	0	-0.1
Ireland						
Exports	2.0	2.4	Negl.	Negl.	2.0	2.4
Imports	2.5	3.3	0.1	0.4	2.4	2.9
Balance	-0.5	-0.9	-0.1	-0.4	-0.4	-0.5
New Zealand						
Exports	2.7	2.5	Negl.	Negl.	2.7	2.5
Imports	2.2	3.3	0.2	0.4	2.0	2.9
Balance	0.5	-0.8	-0.2	-0.4	-0.7	-0.4
Norway						
Exports	4.7	6.4	0.1	0.2	4.6	6.2
Imports	5.8	8.0	0.4	0.5	5.4	7.5
Balance	-1.1	-1.6	-0.3	-0.3	-0.8	-1.3
Portugal						
Exports	1.8	2.0	Negl.	Negl.	1.8	2.0
Imports	2.7	3.5	0.1	0.5	2.6	3.0
Balance	-0.9	-1.5	-0.1	-0.5	-0.8	-1.0
Spain						
Exports	5.1	7.2	Negl.	0.1	5.1	7.1
Imports	8.6	14.3	1.0	3.4	7.7	10.9
Balance	-3.5	-7.1	-1.0	-3.3	-2.5	-3.8
Turkey						
Exports	1.3	1.5	Negl.	Negl.	1.3	1.5
Imports	1.9	3.2	0.2	0.7	1.7	2.5
Balance	-0.6	-1.7	-0.2	-0.7	-0.4	-1.0

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Trade Balances of OECD Countries¹
(Continued)

	Billion US \$ f.o.b./f.o.b.					
	<u>Total Trade</u>		<u>Oil Trade</u>		<u>Non-Oil Trade</u>	
	1973	1974	1973	1974	1973	1974
United Kingdom						
Exports	28.0	35.7	0.8	1.7	27.2	34.0
Imports	33.8	48.0	3.0	9.9	30.8	38.1
Balance	-5.8	-12.3	-2.2	-8.2	-3.6	-4.1

1. Data for 1974 are partially estimated.

(Unclassified)

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DEVELOPED COUNTRIES: INFLATION BULLETIN

The price spiral in major foreign developed countries, now almost three years old, shows signs of breaking. Increases in wholesale prices (in terms of seasonally adjusted, three-month moving averages) plummeted in the last half of 1974 to nearly zero. The rise in consumer prices eased toward the end of the year -- to a still unacceptably high annual rate of about 12%. Although recent West German wage negotiations have resulted in comparatively moderate increases of 7% per year, generous pay hikes in other major countries continue to be layered into the industrial cost structure.

Wholesale Prices

Wholesale prices seasonally adjusted have declined by 5% in Japan since October, by 3% in France since September, and by 1% in Canada since November. In West Germany, Italy, and the United States, prices have been rising at a much reduced rate over the past several months. Only in the United Kingdom have wholesale price rises recently accelerated -- mainly because price controls were relaxed.

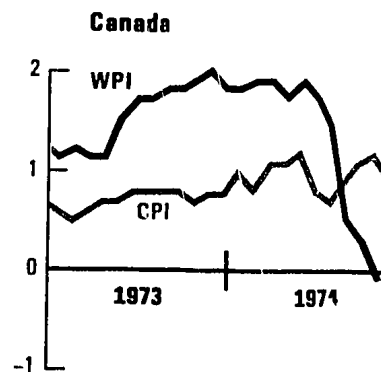
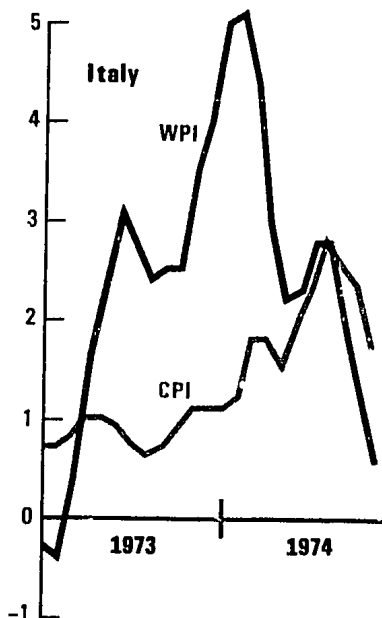
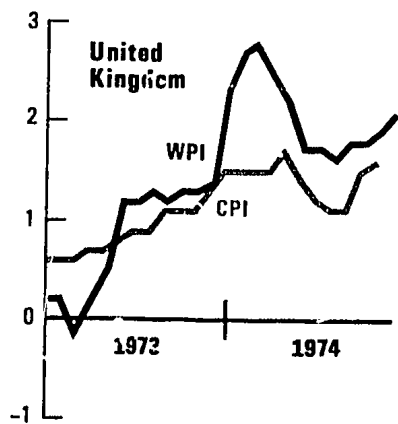
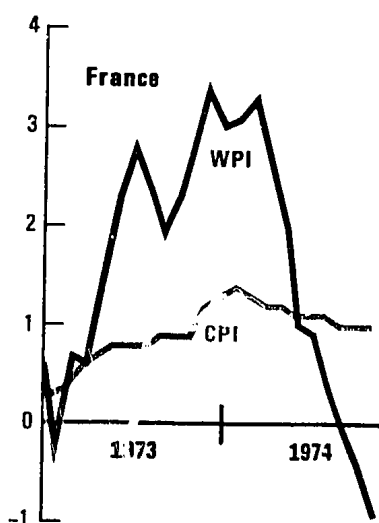
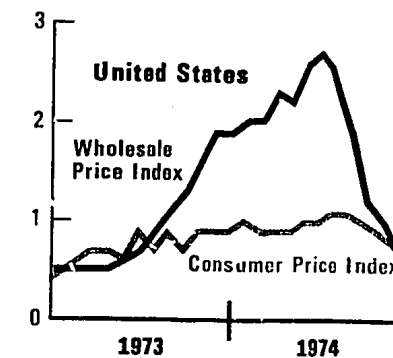
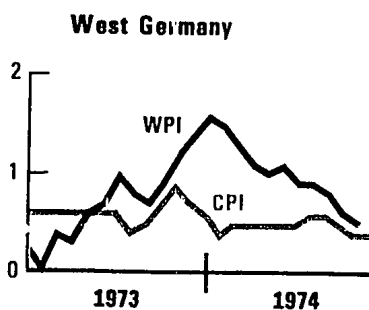
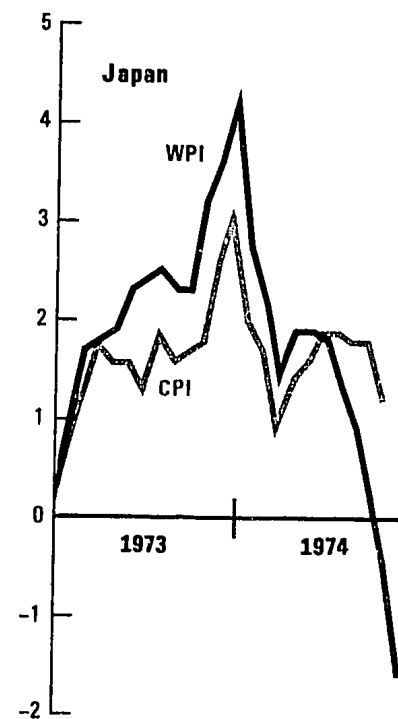
The break in wholesale prices stems primarily from the fall in demand rather than a reduction in cost pressures. While wage rates in such countries as Canada,

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DEVELOPED COUNTRIES: Price Trends

Monthly Percent Change

(three-month moving averages, seasonally adjusted)



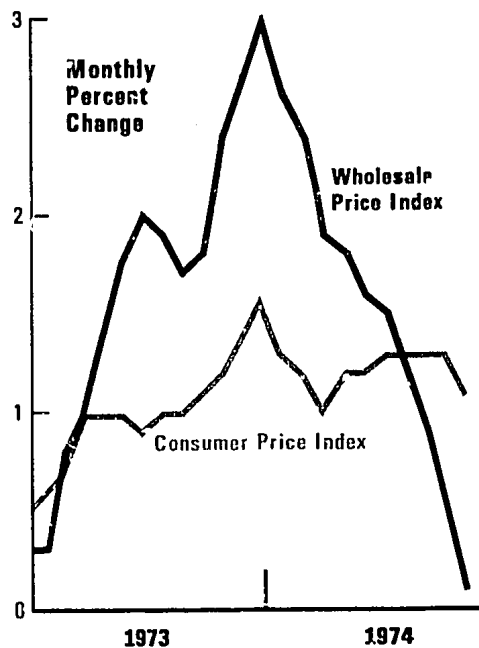
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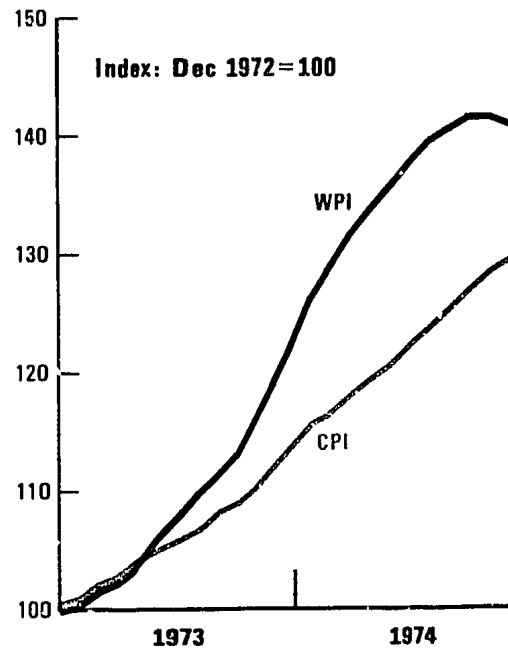
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DEVELOPED COUNTRIES: Composite Price Trends (Excluding the United States)

(three-month moving averages, seasonally adjusted)



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Italy, and Japan are still increasing at a 20% annual rate, industrial firms are no longer able to fully pass on the added costs.

Consumer Prices

The continued rise in consumer prices reflects mainly growing costs for food and services. On the average, increases in food prices have recently accounted for almost one-half of the consumer price rise in major foreign economies. Growth in prices for manufactured goods has slowed to a 4% annual rate in recent months, down from the 15% rate of last fall.

Recent declines in wholesale prices of industrial goods should help slow the pace of consumer price inflation in the near future. The easing of world food prices will not be felt at the retail level for several months – and then only if

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the decline continues. Because stocks of most foodstuffs remain tight, poor harvests would set off another round of price hikes.

Wage Rates

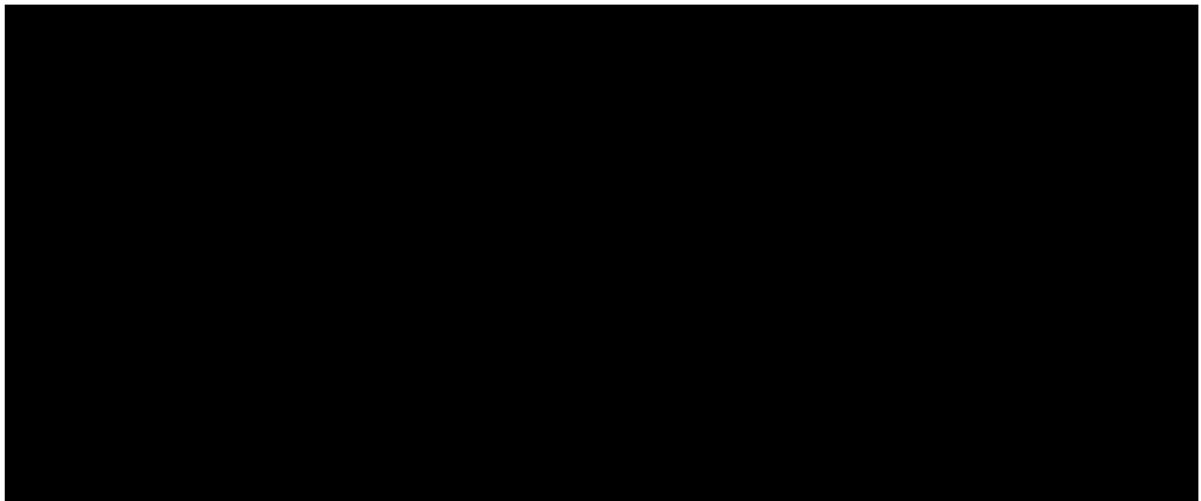
Stiff increases in wage rates -- the extreme example being the recent 31% hike in the pay of British coal miners -- continue in spite of depressed demand and rising unemployment. These increases are attributable to the militancy of various labor organizations, demands (or contract provisions) for "catch-up" gains to match soaring consumer prices, and the weakened resistance of several insecure governments to inflationary wage settlements. Some observers believe that reflationary measures will be pushed along before recession takes the starch out of labor's demands. (Confidential)

* * * *

DEVELOPED COUNTRIES: POTENTIAL BARRIERS TO OPEC EQUITY INVESTMENT

Faced with the reality of massive OPEC wealth, Western countries are reevaluating their regulations on foreign investment in domestic industry. Many of these regulations had been originally adopted to fend off US investment.

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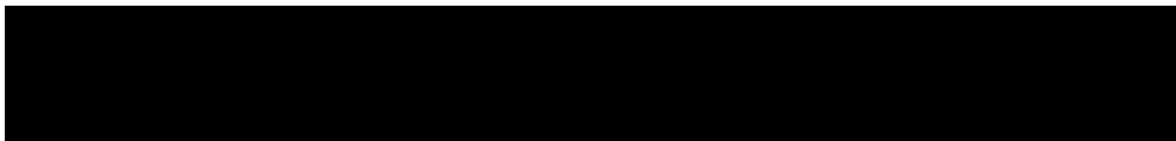
Paris opposes OPEC investment in defense-related industries but reportedly will not block OPEC purchases in other sectors of the economy. Existing regulations give the government broad powers to limit all foreign purchases. The Minister of Economy and Finance must approve the sale of a controlling interest in a French firm. The Director of the Treasury decides what constitutes a controlling interest, except for firms listed on the stock exchange, where control is defined as more than 20% of the equity interest.

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Prospects

The share of OPEC funds going into equities will grow in 1975, creating added pressure for new controls. In 1974, less than 3% of OPEC's surplus revenues was invested in equities, most of which was portfolio investment. The decline in short-term interest rates and the growing sophistication of Arab investment institutions will, however, increase the share going into equities this year. Countries with good long-term economic prospects or traditionally strong currencies such as the United States and West Germany will be prime targets for new OPEC equity ventures. (Confidential No Foreign Dissem)■

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WORLD BEEF MARKET: NO EARLY RECOVERY

A glut in world beef supplies foreshadows continuation of depressed prices and import restrictions in 1975. Prices and purchases by major importing countries are down nearly 50% from recent highs.

Market Situation

Herds are of record size in major cattle-raising countries. Many stockmen have reacted to declining demand and plunging prices by withholding animals from the market, rather than selling at a loss. With herds so large, we expect output of beef and veal in major producing areas to increase by at least 7% in 1975, to 23 million tons. The rise will be still larger if drought in Australia and South America damages pastures, forcing liquidation of herds.

Because of recession in developed countries, demand for beef will be sluggish in 1975. Growth is likely to be confined to substitution of beef in response to higher prices for pork and poultry. Large inventories of cattle and frozen beef also will inhibit a recovery in beef prices. The EC Commission, for example, has had to buy large amounts of beef to maintain CAP prices. Despite sales of 65,000 tons to the

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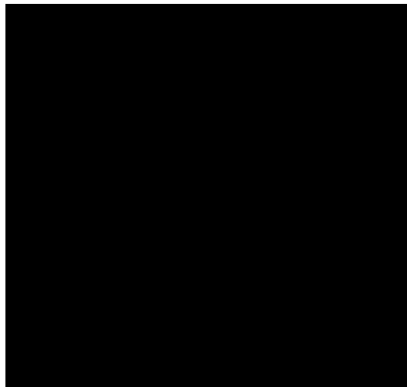
Soviet Union in 1974, Commission stocks now stand at a record 225,000 tons, compared with 200,000 tons in August.

International Beef Trade

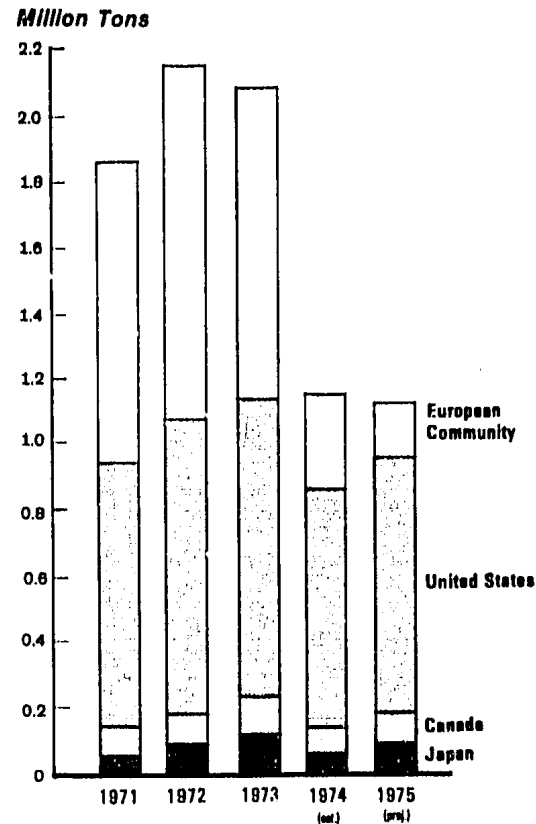
Little recovery in beef trade can be expected so long as

- EC countries retain the embargo imposed in July 1974 on all imports except small amounts received under GATT quotas;

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Beef and Veal Imports of Major Importing Countries



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Beef and Veal Production in Selected Countries

	Million Tons ¹			
	1973	Estimated 1974	Projected 1975	Percent Change, 1975 over 1974
Total	20.24	21.80	23.40	7.3
United States	9.79	10.43	11.16	7.0
European Community	5.16	5.31	6.50	3.0
Argentina	2.15	2.22	2.50	12.6
Australia	1.49	1.20	1.50	25.0
Canada	0.90	0.93	0.95	2.2
New Zealand	0.43	0.39	0.44	12.8
Central America	0.32	0.32	0.35	9.4

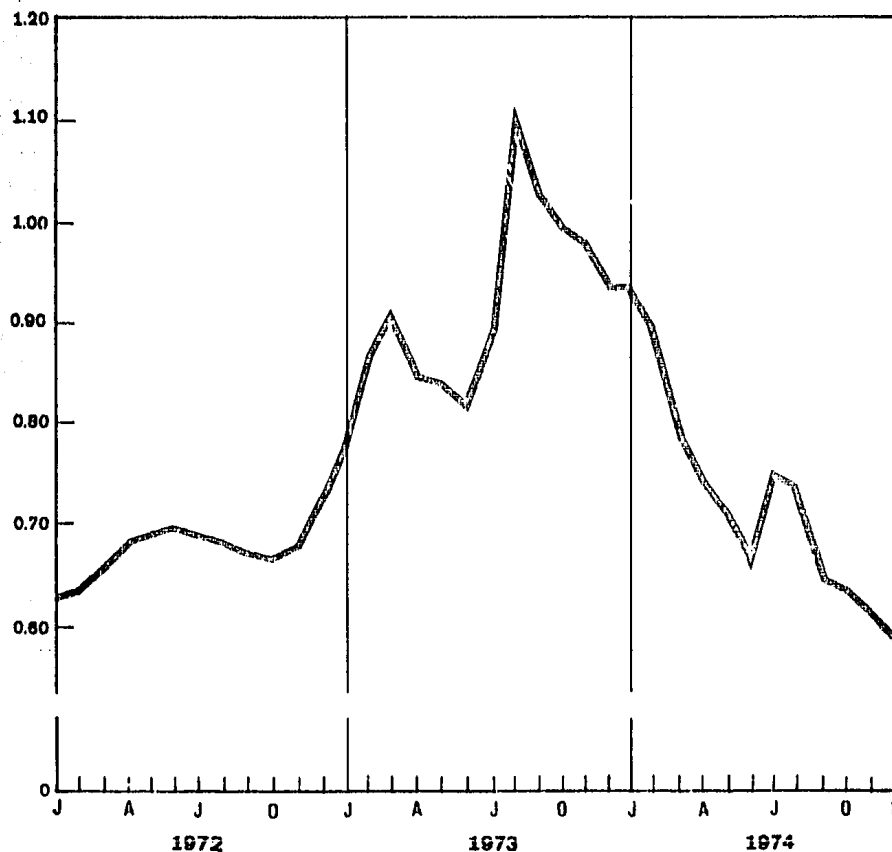
1. Sources: OECD and USDA data for 1973-74; OECD and CIA projections for 1975.

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International Beef Prices¹

US \$/lb

¹ Import prices, 90% lean, frozen, boneless, f.o.b., US port of entry.

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These barriers, together with recession-spawned weaknesses in demand, reduced beef and veal imports by major international buyers to 1.1 million tons in 1974—45% less than in 1973. The EC countries imported only about 300,000 tons, a 70% drop from 1973. Imports by the United States, the one major market without formal restrictions, slipped by only 20%. Beef *exports* suffered most in Argentina (down 50% from 1973) and Australia (down 37%).

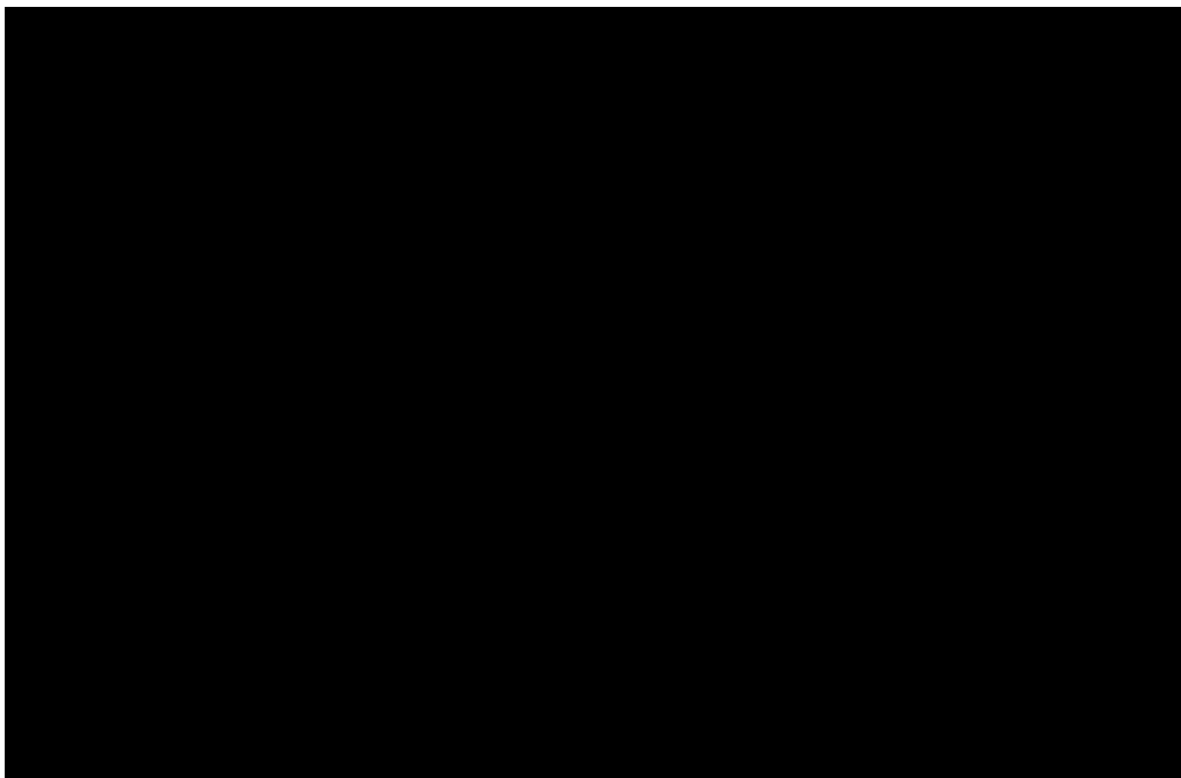
To protect domestic producers from low international prices, the EC, Japan, and Canada almost certainly will maintain substantial restrictions on beef imports this year in spite of complaints from exporters. Imports by EC countries are expected to drop further and imports by Japan and Canada to rise only a little. Meanwhile, the United States is trying to negotiate voluntary restraints with

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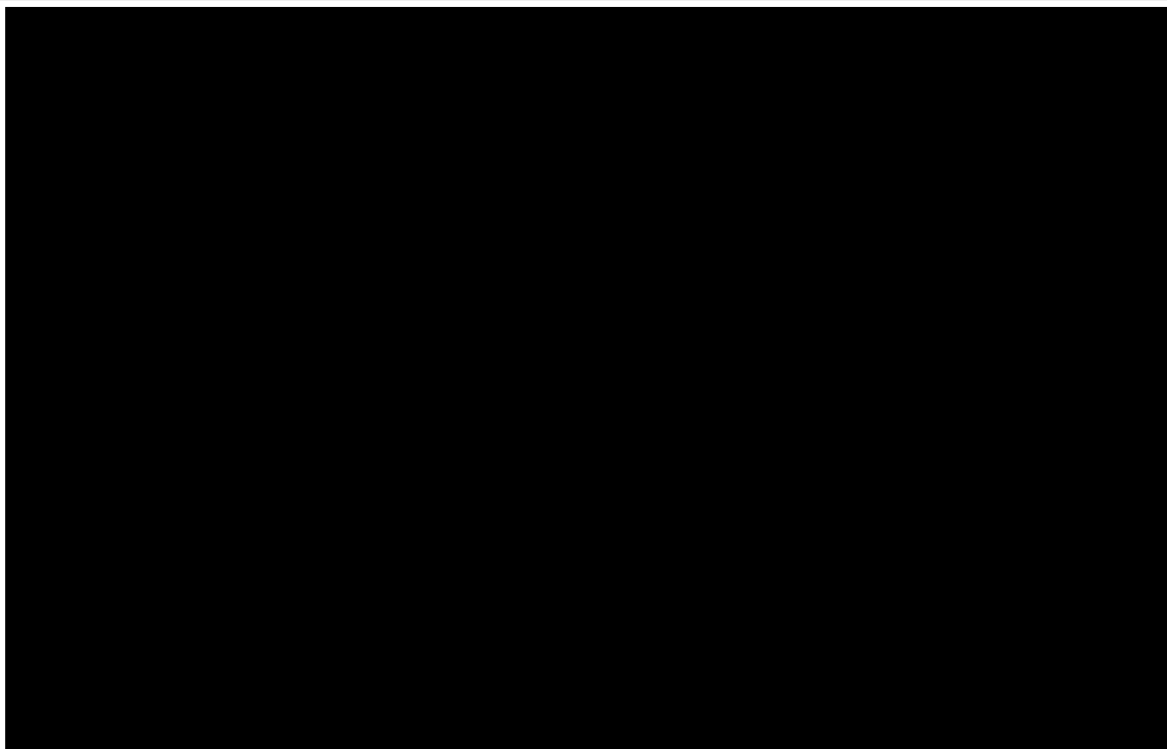
exporting countries that would hold the rise in US imports to 9% in 1975.
(Confidential) ■

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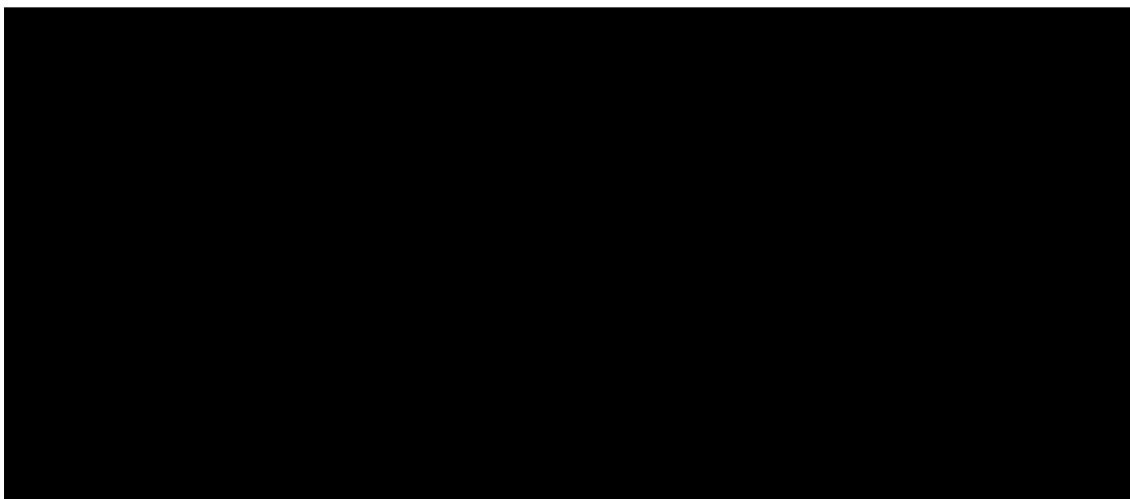
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ARGENTINA: POLICIES HIT US INVESTORS

Populist and nationalist economic policies during the past 21 months of renewed Peronist rule have undermined the financial position of US subsidiaries in Argentina, contributed to nationalization of a few, and dried up the inflow of US direct investment.

- Discriminatory price and wage policies have slashed profits of large firms, including most US subsidiaries.
- Two US oil companies have been forced out of domestic oil marketing, and the properties of six US-owned banks have been nationalized.
- A new foreign investment code has limited profit remittances and capital repatriation and has restricted the scope of activities open to foreign firms.

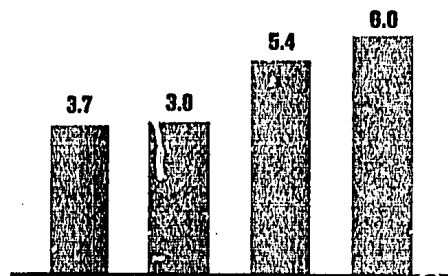
The financial problems of US subsidiaries stem from the Peronist commitment to increase labor's share of the national income. This commitment was initiated by President Hector Campora - Peron's stand-in, elected in May 1973. It was continued by Peron following his September 1973 election and, since his death in August 1974, by Mrs. Peron.

Nominal wage rates were increased 53% from May 1973 to October 1974. Meanwhile price controls limited the rise in living costs to 30% in the 17-month

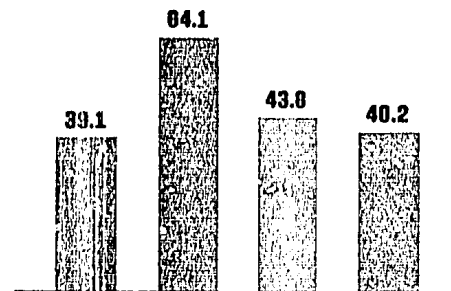
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ARGENTINA: ECONOMIC INDICATORS

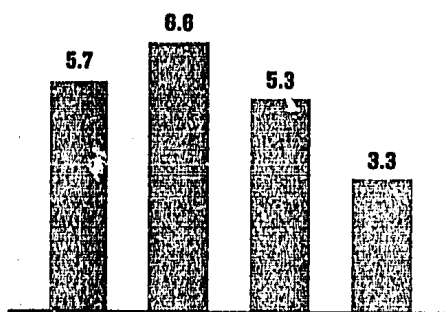
Real GDP Growth
Percent



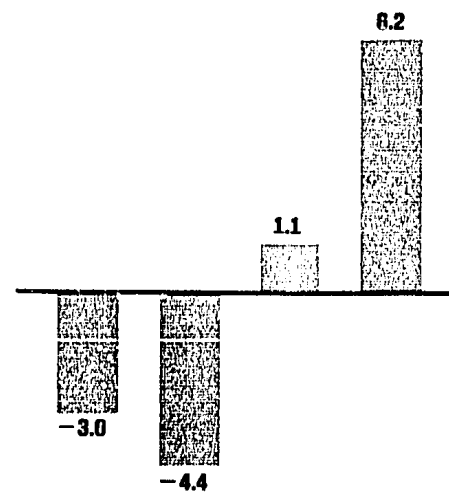
Inflation Rate
Percent, F2C/Dec



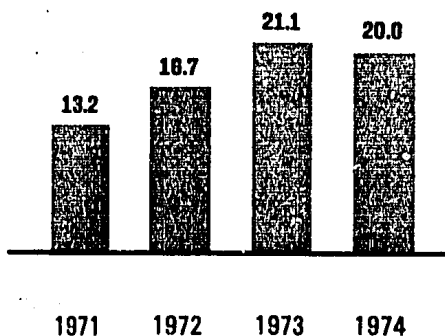
Unemployment Rate
Annual Average, Percent



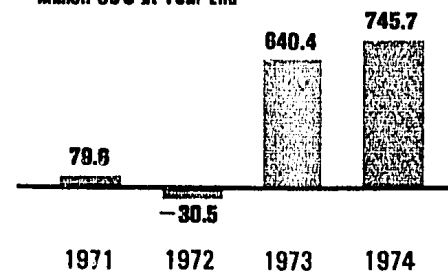
Real Wage Changes
Annual Average, Percent



Public Sector Deficit
as a Percent of Expenditures



Net Foreign Reserves
Million US\$ at Year End



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period. The resulting 17% gain in real wages during this period came largely at the expense of business profits. Profit remittances of US subsidiaries dwindled, and most survived only by turning to their parent companies for funds. The government began nationalization of an ITT subsidiary for fear it would be closed by bankruptcy.

At the end of October, popular discontent with growing shortages of consumer goods forced a tactical shift in government policy. Under the new Minister of Economy, price controls have been eased, and prices charged by government-owned service and manufacturing companies have been boosted 40%-50% to lessen the mounting deficit in the public sector. The financial difficulties of US subsidiaries were little relieved, however, largely because of a 15% wage hike in November. Meanwhile, a nearly 40% increase in the cost of living since October has eaten away all of labor's previous gains.

The problems of US subsidiaries in Argentina seem likely to worsen during the coming year. The recent rise of Peronist labor chief Casildo Herrera has infused new dynamism into the labor movement, and workers are becoming restive over the price increases since October. The outlook for the coming months thus is for substantial wage hikes coupled with a restoration of strict price controls. At the same time, public pressure on the regime to take over additional foreign firms could lead to nationalization of US-owned oil refineries. Moreover, if financial difficulties force the US automobile subsidiaries to curb output, they also may become a target of nationalization moves. (Confidential No Foreign Dissem) ■

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SOVIET FERTILIZER: EXPANSION OF OUTPUT AND EXPORTS*

Spurred by Moscow's concern with agricultural productivity and aided by large infusions of Western equipment and technology, production of chemical fertilizer in the USSR is scheduled to nearly double in 1975-80. The USSR probably will become the world's largest producer and the second largest exporter.

* This article draws on the findings of a forthcoming OER report, *Soviet Fertilizers: Expansion of Output and Exports*.

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Production

Output on a nutrient basis grew by 47% in 1971-74 and is scheduled for a further 15% increase in 1975 to 22.2 million tons.

- In 1974, about 70 fertilizer installations were being built or were on the drawing board. The potash projects alone will provide 7.7 million tons of new capacity, compared with world output of about 22 million tons in 1973/74.
- Fertilizer production in the USSR in 1975 will rival output in the United States, although the assortment and quality of Soviet products will continue to be inferior.

The target for a further increase of 63% in the 1976-80 plan period, while ambitious, is probably within reach. Even allowing for some shortfall, the USSR should displace the United States as the largest fertilizer producer before 1980.

	Million Tons of Nutrients		
	1970	1975 Plan	1980 Plan
Production	13.1	22.2	36.1
Nitrogen	5.4	8.0	13.0
Phosphate	3.6	5.7	10.6
Potash	4.1	8.5	12.5

Contribution of Imported Equipment

To support its massive fertilizer program, the USSR bought nearly \$400 million worth of Western equipment in 1960-71. After a pause in 1972, purchases mushroomed to about \$1 billion in 1973-74 as Moscow ordered 16 large modern ammonia plants and two urea plants from non-Communist suppliers. Two more urea units were ordered early in 1975, and purchases of Western equipment are likely to continue on a high level at least through 1980.

Exports

Soviet fertilizer exports have been growing rapidly despite the still unmet needs of domestic agriculture. Exports by 1980 should approach 5 million tons, one-seventh of the world total. By this date, only Canada is likely to export more fertilizer than the USSR.

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	Million Tons of Nutrients		
	1970	1973	1980 Projected
Exports	1.77	2.45	4.9
Nitrogen	0.33	0.36	1.5
Phosphate	0.13	0.09	0.6
Potash	1.31	2.00	2.8

Soviet fertilizer, which until now has been exported mostly to Communist countries, will appear in increasing quantities in Western markets. Responsibility for sales will often rest with Western firms under the terms of various commercial agreements. For example, exports of ammonia (a feedstock for nitrogen fertilizer) will largely reflect Soviet payments for Western fertilizer equipment. (Confidential)

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Note

US-Romanian Trade on Upgrade

The US-Romanian trade agreement, expected to be signed within the next month, will spur already booming economic relations.

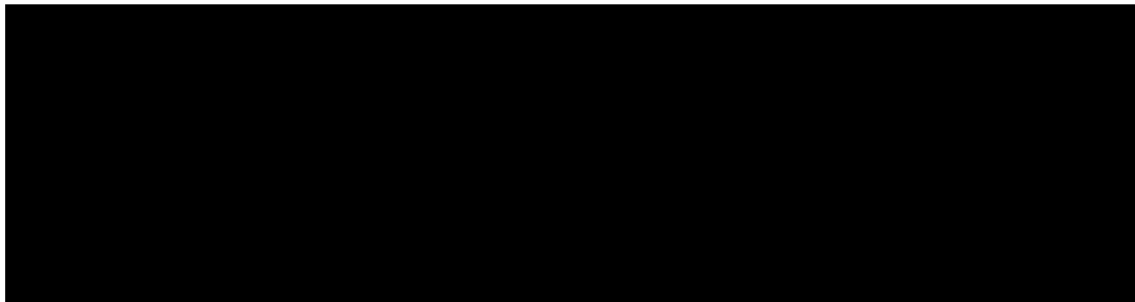
	Million US \$	
	US Exports to Romania	US Imports from Romania
1972	69.4	31.5
1973	116.6	55.7
1974	273.3	129.3

If the agreement is okayed by Congress, Romania will join Poland and Yugoslavia as the only Communist nations with formal US trade ties and most-favored-nation status. According to the compact, trade is expected to expand to \$700 million by 1978. Most of the trade involves US exports of machinery and feedgrains and imports of Romanian petroleum and consumer goods. (Confidential)

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Publications of Interest*

25X6



Worldwide Submarine Cables and Communications

Satellite Earth Stations

ER RP 75-7, February 1975, For Official Use Only

This publication discusses developments in submarine cable and communications satellite technology and is intended to be a handy reference document. It includes tables and a map on major submarine cable systems and comsat earth stations.

* Copies of these publications may be ordered by calling [REDACTED] Code 143, Extension 7234. 25X1A

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